

October 18, 2002

**To the Honorable Mayor, Members of the City Council
And Citizens of the City of Chula Vista, California**

The Annual Financial Report (the Report) of the City of Chula Vista for the fiscal year ended June 30, 2002 is hereby submitted in accordance with City Charter section 1017 and section 25253 of the Government Code of the State of California. The accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, are the responsibility of the City. The Report has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). It is believed that the data reported is accurate in all material respects, that it is presented in a manner designed to fairly represent the financial position and results of operations of the City as measured by the financial activity in its various Funds, and that all disclosures necessary to enable the reader to gain maximum understanding of the City's financial affairs have been included.

The Report is organized into three major sections as follows:

Introductory Section:	This section includes a table of contents, this transmittal letter, and a City organizational chart.
Financial Section:	This section includes the independent auditors report, the management's discussion & analysis, the basic financial statements and notes to these statements, followed by supplementary information.
Statistical Section:	This section contains both financial and non-financial trend data about the City and its operations.

MAJOR CHANGES IN REPORTING

These financial statements represent a substantial change from the prior year's format and accounting methodology. In June of 1999, the Governmental Accounting Standards Board (GASB), which sets the Generally Accepted Accounting Principles (GAAP) for all State and Local governments, established a new framework for financial reports.

This is the first year the City prepared the CAFR using the new financial reporting requirements as prescribed by the GASB Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis – for State and Local Governments* (GASB 34). This new GASB Statement requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

The major differences from the prior year's financial statements are listed below:

- The detailed financial analysis previously found in the Transmittal Letter has been moved to the Management's Discussion and Analysis section.
- Management's Discussion and Analysis is a newly required section that provides a detailed analytical overview of the City's Financial Statements.
- The "General Purpose Financial Statements" have been replaced with the "Basic Financial Statements" which include Government-wide Statements and Fund Statements.
- The Government-wide Financial Statements reflect the entire City's financial information on the full accrual basis of accounting, in a manner consistent with private sector reporting.
- The Government-wide Statement of Net Assets now includes the recording of land, buildings, equipment and infrastructure as Capital Assets. These assets are now expensed through depreciation on the Government-wide Statement of Activities; unless they are inexhaustible, such as land.
- The General Fixed Assets and General Long-Term Debt Account Groups will no longer be shown; they are now included in the Government-wide Statement of Net Assets as assets and liabilities.
- The Government-wide Statement of Activities and Changes in Net Assets provides information on the net cost of each governmental function.
- The City previously recorded revenues received from private parties and assets contributed by others as contributed capital. For the year ended June 30, 2002, the City adopted the standards of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which requires these contributions to be recorded as revenue.
- Fund Statements are reported in a manner consistent with previous years, using the modified accrual basis of accounting. However, they are divided into Major and Non-major funds based on a detailed analysis of fund assets, liabilities, expenditures and revenues.

GOVERNMENT

The City of Chula Vista was incorporated in 1911, and functions under a City Charter with a Council/Manager form of government. The City is governed by a four member Council and a Mayor, who serve four year overlapping terms, and are elected on a citywide basis. Municipal services provided include police, fire, parks, recreation, libraries, planning, street and drainage construction & maintenance, sewer services, etc.

THE REPORTING ENTITY (Activities included in the Report)

The Report includes all activities carried out by the City as a legal entity, and also includes the activities of certain other entities for which the City Council is financially accountable as determined under the guidelines of the Governmental Accounting Standards Board. Although legally separate entities, these so called "component units" are under the City's umbrella of accountability, and therefore, their financial position and results of operations are reflected in the Report.

The component units included in the Report are:

The Redevelopment Agency of the City of Chula Vista
The Chula Vista Industrial Development Authority
The Chula Vista Public Financing Authority
The Bayfront Conservancy Trust

ACCOUNTING SYSTEMS AND BUDGETARY CONTROL

The basic financial statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

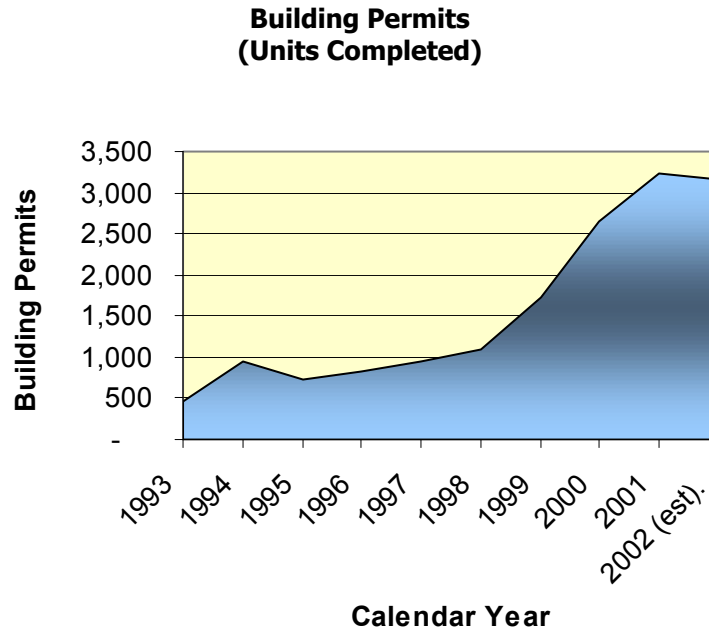
In administering the City’s accounting systems, primary consideration is given to the adequacy of internal accounting controls, which include an array of administrative procedures. These controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, as well as the reliability of financial records for accurate and fair presentation of financial reports. The concept of reasonable assurance recognizes that the cost of specific controls should not exceed the benefits likely to be derived from exercising the controls, and that this evaluation necessarily involves estimates and judgments by management. It is believed that the City’s internal accounting controls adequately safeguard City assets and provide reasonable assurance of proper recording of financial transactions.

The City Charter charges the Director of Finance with the responsibility to supervise and be responsible for the disbursement of all monies and have control over all expenditures to insure that budget appropriations are not exceeded. The level of budgetary control, that is, the level at which expenditures are not to exceed Council approved appropriations is established at the department level. An encumbrance (commitment) accounting system is utilized as a technique to enhance budgetary control during the year. Appropriations encumbered (committed) at year end automatically carry forward and are available to be used for those commitments during the subsequent year, while unspent, unencumbered appropriations lapse at year end and become generally available for re-appropriation the following year.

LOCAL ECONOMY AND PROSPECTS FOR THE FUTURE

The City of Chula Vista is a city of great diversity, both geographically and demographically. It is a community of many choices and opportunities. From the beautiful shoreline with its marina, wildlife preserve, and Bayfront parks, to the planned communities of the east, we continue to be a city of growth and change. Chula Vista residents enjoy all the benefits of a major city along with small town friendliness, affordable housing and near perfect weather.

The City of Chula Vista, with a population of more than 190,000 is the second largest community in San Diego County. Preliminary San Diego Area Government (SANDAG) forecasts projects that the City of Chula Vista will reach a population of approximately 280,000 by the year 2030. The City continues to grow at a rapid pace, primarily through new development in the eastern portion. The number of residential building permits in the City has nearly doubled since 1998. There were 3,222 residential units completed in calendar year 2001 the all-time highest number in the City’s history. It is anticipated that there will be approximately 3,155 units completed in calendar year 2002. The following graph shows the actual number of housing units completed during the last few calendar years.



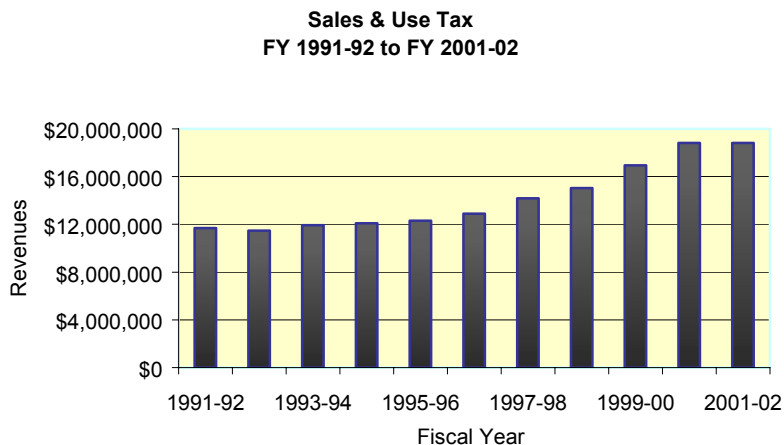
In fiscal year 2002, the median price of a single family detached home in the County averaged \$347,000, while Chula Vista averaged \$318,500. The most recent data available indicates that the median family income in Chula Vista is \$48,020.

This level of growth is generating increased demand for all City services, while also generating increased amounts of development related fees, taxes, and other revenues at levels, which should tend to mitigate the increased service costs. Elected officials and City management remain vigilant in attempting to protect the quality of life that the citizens of Chula Vista have grown accustomed to through active enforcement of the City's growth management thresholds.

The national economy has been in a mild recession since 2000, but it has been showing signs of very slow, but steady recovery of late. Fortunately, the local economy has generally experienced a somewhat milder recessionary period of shorter duration than the national economy. All major economy-driven revenues continue to trend upward, albeit some such as Sales Tax revenues at a reduced pace. Property Tax and Motor Vehicle License Fee revenues have continued to grow at historically high rates right through the recessionary period.

Chula Vista has served as the headquarters for aerospace giant Goodrich Aerostructures (formerly Rohr, Inc.) for more than 50 years. The unprecedented growth and opportunities occurring in Chula Vista has also encouraged other growing companies to locate their corporate headquarters here. The Leviton Manufacturing Company, one of the nation's leaders in the electrical and electronic products industry, located their western regional R&D facility also in the EastLake Business Park. Once fully staffed, the Leviton R&D facility is expected to employ approximately 200 administrative, engineering, and research and development personnel. More recently, in March 2002, Hitachi Home Electronics of America held a groundbreaking ceremony to mark the start of construction for their North American headquarters for home electronics located in the EastLake Business Park. This 85,902 square foot facility, slated for completion in May 2003, will ultimately employ between 170 – 200 people primarily dedicated to higher paying administrative and laboratory occupations. In April 2002, DNP Electronics America, LLC, a worldwide Japanese corporation that manufactures frenal screens for rear projection televisions, opened their only hi-tech North American manufacturing facility in the EastLake Business Park. Employing nearly 100 people, the DNP facility's television screen production represents approximately 60% of the worldwide market.

A number of large retail operators have chosen Chula Vista in the past few years as key sales locations. These include Costco, Wal-Mart, Home Depot, Ford, Honda, Chevrolet, K-mart, Bed Bath and Beyond, and most recently Best Buy. The growth in retail operators has made significant contributions to Chula Vista's sales tax base. For a ten-year period between 1991-2001, Chula Vista's sales tax revenues grew approximately 61%, with most of that growth occurring after fiscal year 1995. During the 2002 fiscal year, generally regarded as a recessionary period, Chula Vista's sales tax revenue remained at the same level as the previous fiscal year.



During the last few years, Chula Vista has also attracted several tourist/entertainment businesses including the ARCO Olympic Center, Knott's Soak City, and the Coors Amphitheater. Each has added excitement to the City's growing number of entertainment venues. The City is looking to add to its growing tourism and entertainment sector and is investigating the possibility of attracting additional venues such as a Whitewater Rapids kayak and canoe park and a venue involving the San Diego Junior Theater.

MAJOR INITIATIVES

The Fiscal Year 2002 Capital Improvement Project (CIP) budget represented a 3% increase over the previous year budget. This appears to be a small increase, but on top of the 58% increase in the 2001 CIP budget, it is significant. This reflects Council's continued commitment to the renewal of existing facilities and infrastructure and to provide the improvements necessary to respond to the growth being experienced by the City. Established neighborhoods and business areas continue to benefit from the City of Chula Vista's commitment to maintain its infrastructure. The primary focus again this year was construction of new streets, sewers, and parks, as well as significant renovation of existing roadways and park facilities.

Construction of a new Corporation Yard, which houses all equipment, vehicles, buses and personnel in the City's Public Works Department/Operations Division, was completed during this fiscal year. The project includes 156,000 square feet of new facilities on a 25-acre site, including administrative offices, a warehouse building, a vehicle maintenance building, fueling island and vehicle parking.

Construction of a major portion of Olympic Parkway, a primary east/west artery, was completed providing more direct access to the eastern section of the City. The event was celebrated with a festive ribbon-cutting followed by a fun walk/run/bike race before the new roadway opened to vehicular traffic. The next phases of the roadway are expected to be completed by the fall of 2002. The schedule has been accelerated due to the rapid growth experienced in the eastern section of the City.

Long-term financing was obtained and construction is well underway on a new Police Headquarters Facility,

which is being constructed near the Civic Center. The current Police Facility was designed in the late 1960's, when the population of the city was approximately 65,000 and expected to peak around 80,000. The current population is approximately 190,000 and expected to reach 280,000 by 2030. All of the Police Department's functions will be housed in this four-story, 140,000 square foot facility along with a public plaza, community meeting room and a parking structure. Total cost of the Police Facility site acquisition and improvements, relocation of current tenants, design and engineering, construction, parking structure, furniture and fixtures is expected to exceed \$70 million. Once the Police Department moves into their new facility in 2004, a \$43.7 million renovation is expected to begin on the Civic Center complex itself.

Finally, during fiscal year 2002, the first phase of the \$80 million Gateway Chula Vista office/retail project was completed. This 346,000 square foot development located in the center of downtown Chula Vista, with one five-story and two six-story office buildings, will be the largest luxury mixed-use complex in the South County. The City's Redevelopment Agency is providing a substantial amount of public funding for this landmark project.

CASH MANAGEMENT POLICIES

In order to maximize investment leverage, it is the City's practice to "pool" available cash from all Funds for investment purposes. In accordance with the annually adopted investment policy, available cash is invested with the goal of safety, meaning protection of principal, as the first priority, insuring adequate liquidity as the second priority, and maximizing yield as the third priority. The average yield on the pooled investment portfolio during the fiscal year ending June 30, 2002 was 5.22%, a drop from the prior year yield of 5.86% due to a generally declining interest rate environment.

RISK MANAGEMENT

The City is self-insured for general liability and worker's compensation up to \$250,000 per claim. As a member of the San Diego Pooled Insurance Program Authority (SANDPIPA), the City is insured for general liability claims between \$250,000 and \$2 million. In addition, for general liability claims between \$2 million and \$42 million, the City is covered by excess insurance coverage obtained through SANDPIPA. For worker's compensation claims, the City has purchased excess insurance for claims exceeding \$250,000.

The probable amounts of loss as estimated by the City's Risk Manager and Attorney, including an estimate of incurred-but-not reported losses, have been recorded as liabilities in the basic financial statements. There were no reductions in insurance coverage from the prior year and there were no insurance settlements, which exceeded coverage in each of the past three years. Additional information on the City's risk management activity can be found on page 79 of the notes to the financial statements.

INDEPENDENT AUDIT

An independent audit of the City's records is required by section 1017 of the City Charter and was performed for the year ended June 30, 2002 by the certified public accounting firm of Caporicci & Larson, LLP. The auditors report on the basic financial statements and schedules is included in the Financial Section of the Report. In general, the auditor's concluded that the financial statements and schedules referred to above present fairly, in all material respects, the financial position of the City of Chula Vista as of June 30, 2002, and the results of its operations and cash flows of its proprietary fund types and discretely presented component unit for the year then ended in conformity with generally accepted accounting principles. The professionalism and knowledge exhibited by Caporicci & Larson, LLP during their audit work is greatly appreciated.

AWARD

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Chula Vista for its comprehensive annual financial report for the fiscal year ended June 30, 2001. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Similarly, the California Society of Municipal Finance Officer (CSMFO) presented the City of Chula Vista with a Certificate of Award for Outstanding Financial Reporting for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001. The Certificate of Award is a prestigious state recognition for conformance with certain high standards for preparation of local government financial reports. The CSMFO Certificate of Award is also valid for a period of one year only. We believe that our current report conforms to the Certificate of Award program requirements, and we are submitting it to CSMFO.

ACKNOWLEDGMENTS

Preparation of the Report and more importantly, maintaining the City's accounting records in a manner sufficient to earn the aforementioned auditors opinion is only accomplished with the continuous concerted effort of each and every staff member in the Finance Department. As such, I express my sincere appreciation for their dedicated service.

Respectfully,

ROBERT W. POWELL
Assistant City Manager/Director of Finance

